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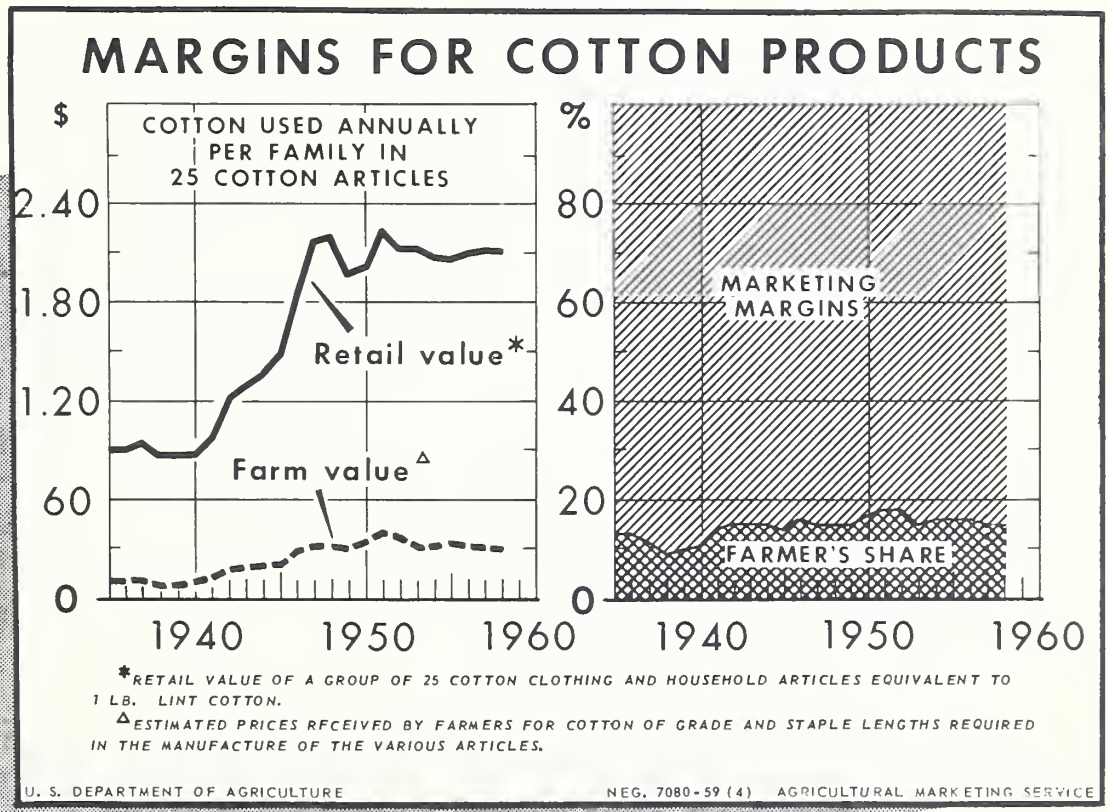
Marketing Channels and Division of Consumer's Dollar for Cotton and Wool



UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Washington, D.C.
May 1959

AMS-307

MARKETING CHANNELS AND DIVISION OF CONSUMER'S DOLLAR FOR COTTON AND WOOL 1/

Cotton and Cotton Products

Taking cotton from farms and delivering it in the form of finished clothing and household textiles to ultimate consumers requires the services of many types of middlemen. These services begin when seed cotton is hauled from farms to gins.

Marketing Channels and Charges

Services performed at the gins include conditioning and cleaning seed cotton, separating the lint from the seed, and bagging and wrapping the lint into bales of approximately 500 pounds. Charges for ginning and related services have increased markedly in recent years. In 1957 they averaged $14.51 per bale, or about 10 percent of the price received by the farm producer for the lint cotton.

Cotton usually moves from gins to warehouses where it is assembled and stored. These warehouses may be operated in connection with compresses. Many of the bales, particularly in central and western areas of the Cotton Belt, are compressed to smaller volume to facilitate storage and transportation. From warehouses and compresses cotton usually moves to mills by railroad or motortruck, or by some combination of truck, rail, and water transportation. Taking cotton from gins and delivering it to mills involves marketing services such as assembling, compressing, insuring, transporting, financing, and risk bearing. Charges for these services have increased in recent years. In 1957, they averaged about 4.15 cents a pound, or about 12 percent of the cost of the cotton to mills.

At mills the bales are opened and the cotton is cleaned, carded, combed (for fine yarns), and spun into yarn. On the average, about 4 percent of the gross weight of the bale usually is discarded as tare, mainly bagging and ties. About 7 percent usually is removed as nonspinnable waste and most of the remaining 89 percent is made into yarn (fig. 1). The gross manufacturing margins of cotton yarn mills decreased from about 46 percent of the wholesale value of the products in 1939 to 31 percent in 1954, according to census reports.

In 1954, about 83 percent of the cotton yarn was woven into cloth, 8 percent was used by the knit goods industry, and small proportions were used in thread and in carpet and other yarns. At weaving mills, the yarn is prepared for weaving, woven into fabrics, and the fabrics prepared for shipment to finishing plants. Gross margins of manufacturers of cotton broadwoven fabrics as proportions of the wholesale value of the products decreased from about 54 percent in 1939 to 44 percent in 1954.

1/ Prepared by L. D. Howell, Agricultural Economist, Mktg. Res. Div., Agr. Mktg. Serv.

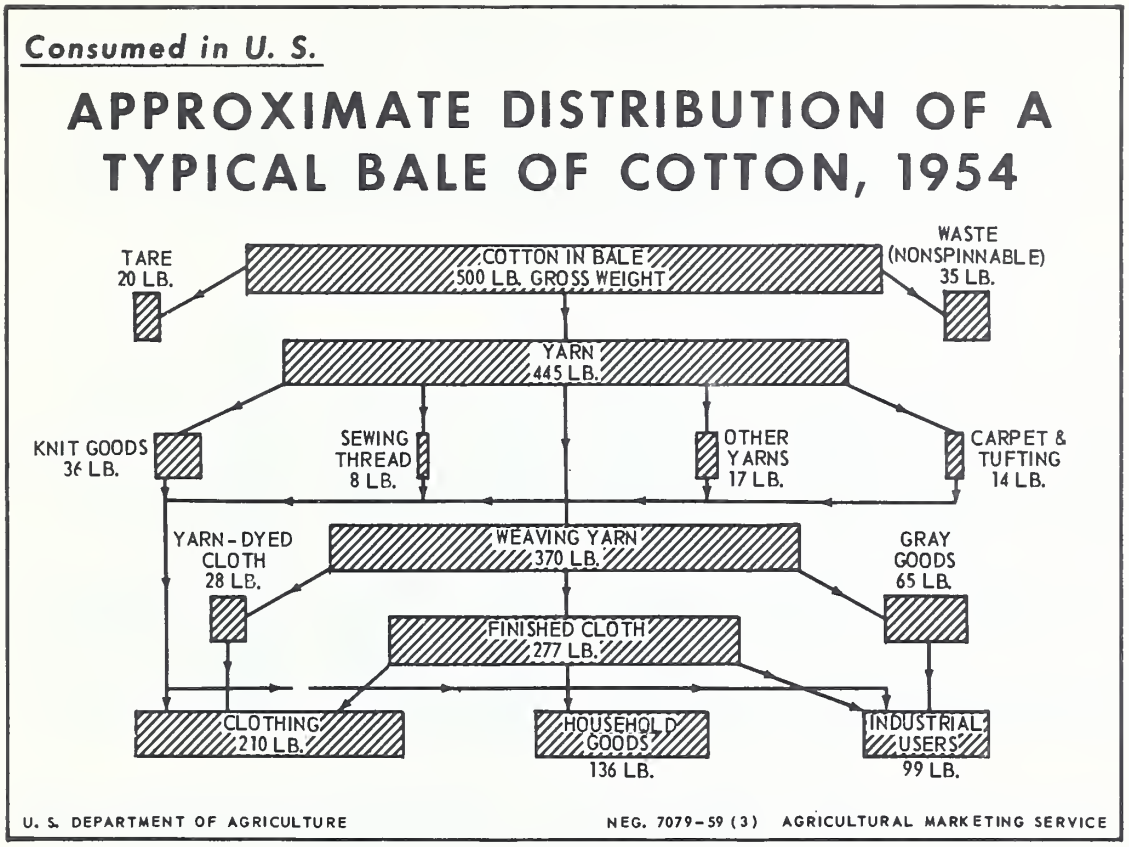

Consumed in U. S.
APPROXIMATE DISTRIBUTION OF A TYPICAL BALE OF COTTON, 1954
TARE 20 LB.
COTTON IN BALE 500 LB. GROSS WEIGHT
WASTE (NONSPINNABLE) 35 LB.
YARN 445 LB.
KNIT GOODS 36 LB.
SEWING THREAD 8 LB.
OTHER YARNS 17 LB.
CARPET & TUFTING 14 LB.
YARN-DYED CLOTH 28 LB.
WEAVING YARN 370 LB.
GRAY GOODS 65 LB.
FINISHED CLOTH 277 LB.
CLOTHING 210 LB.
HOUSEHOLD GOODS 136 LB.
INDUSTRIAL USERS 99 LB.
U. S. DEPARTMENT OF AGRICULTURE
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Figure 1

Census reports indicate that in 1954 about 17 percent of the woven cloth was used in the gray or unfinished form, about 8 percent was colored yarn fabrics, and 75 percent was finished from the gray. Finishing gray goods includes bleaching, dyeing, and printing. In 1957, about 44 percent of the total linear yardage was bleached and white finished, 32 percent was plain dyed and finished, and 24 percent was printed and finished. Styling and finishing of a large part of the cotton cloth is controlled by converters but substantial proportions are controlled by mills, with or without the collaboration of the manufacturing user.

Much of the finished cloth usually goes to cutters who make it into wearing apparel and household textiles. Estimates of cotton consumption by end uses show that the proportion used in apparel increased from 36 percent in 1947 to 50 percent in 1957. The proportion for household uses increased slightly but industrial uses decreased from 36 percent in 1947 to 21 percent in 1957. Gross margins of manufacturers of apparel and household textiles increased from an average of about 50 percent of the value of the products in 1939 to 55 percent in 1954, according to census reports.

Clothing and household textiles usually go directly or indirectly through wholesalers to retailers who distribute them to consumers. Wholesalers handling these products include merchant wholesalers, manufacturers' sales branches and sales offices, and merchandise agents and brokers. Gross margins of wholesale dry goods houses increased from about 15 percent of net sales in 1949 to about 17 percent in 1957. Similar margins of retailers of apparel and household textiles in recent years averaged about 33 percent of the price to consumers.

Division of Consumer's Dollar

Charges for the many services performed in transforming raw cotton into finished cotton goods and making them available to the consumer amount to a large share of the consumer's dollar paid for the finished cotton products. In the 1935-58 period marketing margins accounted for an average of 85 percent of the consumer's dollar paid for a group of 25 cotton articles of clothing and household furnishings. Receipts by farmers for the cotton used averaged 15 percent. (See cover chart.) Proportions of the consumer's dollar represented by the farm value usually varied irregularly with the price of cotton. 2/ They ranged from about 9 percent in 1938, when prices farmers received for cotton averaged less than 9 cents a pound, to 18 percent in 1951, when farm prices of cotton averaged about 38 cents a pound. The proportion was 15 percent in 1958 when farm prices averaged about 33 cents a pound.

Proportions of the consumer's dollar accounted for by the farm value of the cotton differ by products. During 1952-57 these proportions averaged about 34 percent for sheets, 16 percent for work shirts, and 8 percent for business shirts.

Estimates of the average distribution of the consumer's dollar paid for cotton apparel and household goods on the basis of the type of service rendered have been made for recent years. Data available for these estimates are not complete and in some instances they are not strictly comparable. Consequently, margins can only be approximated. Furthermore, the estimated margins were adjusted to approximate the farm-retail price spreads for cotton clothing, household textiles, and yard goods, which are calculated periodically by the Agricultural Marketing Service. These estimates indicate that charges for marketing services in terms of dollars increased markedly during the 1940's but flattened out in the 1950's.

Proportions accounted for by margins for ginning, baling, and merchandising raw cotton and for wholesale and retail distribution decreased from 1939 to 1947, then increased to 1957 (fig. 2). Proportions accounted for by margins for spinning yarn, weaving cloth, and dyeing and finishing fabrics decreased from 1939 to 1954, and then increased; those for manufacturing apparel and household textiles increased from 1939 to 1957.

2/ The farm value is the payment farmers received for the quantity of lint cotton used in the fabricated cotton products.

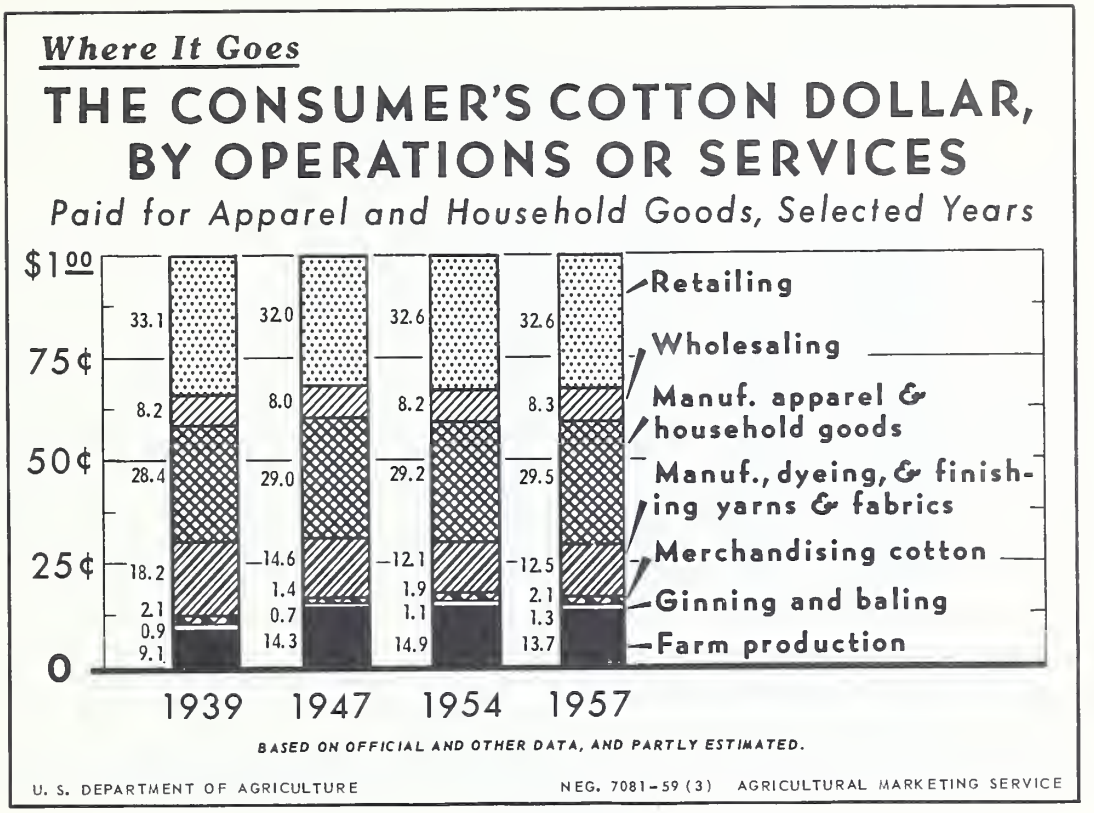

Figure 2

Estimates also were made of the proportions of the farm-retail spread accounted for by the major cost items. The approximate proportions accounted for by wages and salaries decreased from about 48 percent in 1939 to 44 percent in 1947, and then increased to about 50 percent in 1957 (fig. 3). Profits increased from about 5 percent of the spread in 1939 to 14 percent in 1947, and then decreased to less than 6 percent in 1957. Wages and salaries of employees engaged in marketing, manufacturing, and distributing cotton and cotton products in 1957 averaged almost 4 times as much, and profits to marketing agencies averaged more than one-third as much, as returns to growers for farm production of the cotton.

Margins for ginning and baling, combined with those for all the services involved in taking cotton from gins and delivering it to mills amounted, on the average, in 1957, to about 8 percent of the combined margins for manufacturing and finishing the cloth and for fabricating it into wearing apparel and household goods or about 8 percent of the combined margin for wholesaling and retailing these products. Thus, a reduction of only 4 percent in the margins for manufacturing or for distributing textile products would have reduced the marketing spread about as much as a 50 percent reduction in the margins for ginning, baling, and marketing the raw cotton.

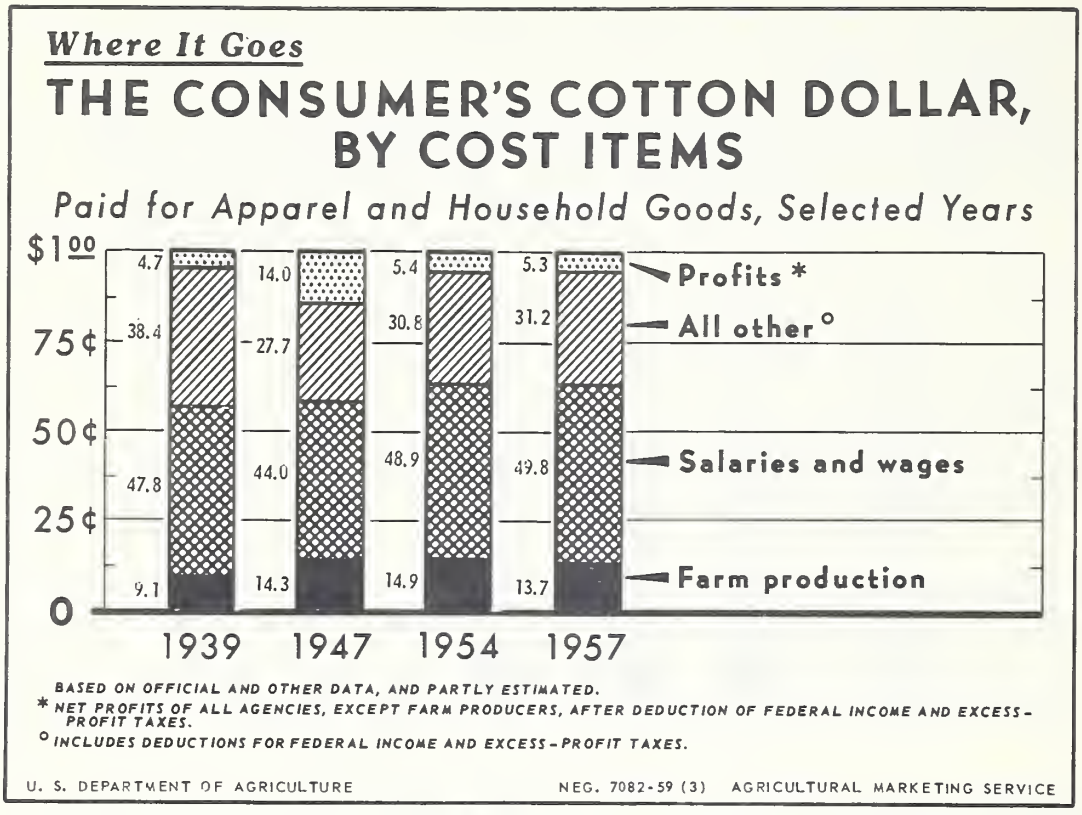

Figure 3

These differences in size of margins are important, but they may not reflect accurately the relative opportunities of making savings in marketing costs that can be passed back to cotton growers or on to consumers of the finished products. A determination of the extent to which it would be feasible to reduce these margins would require detailed studies of each important segment of the marketing procedure to evaluate the influence of the factors affecting efficiency and costs, and to discover the most feasible means of increasing efficiency and of reducing costs for the various agencies.

Wool and Wool Products

Wool utilized in the United States consists of two rather distinct kinds, known as apparel and carpet wools. Apparel wool includes the finer fibers used mainly in the manufacture of apparel yarns and fabrics. Carpet wool consists of the coarser fibers used mainly in the manufacture of carpets and rugs. In 1958 apparel wool accounted for about 65 percent and carpet wool for about 35 percent of all wool consumed in the United States. All of the carpet wool and substantial quantities of the apparel

wool were imported. Shorn wool, obtained from shearing live sheep, comprised about seven-eights of the wool produced in the United States in 1957. The remainder was pulled wool, obtained by pulling the wool from the skins of slaughtered sheep. Production of both kinds is widely distributed throughout the United States.

Marketing Channels and Charges

Taking domestic wool from farms and ranches and delivering it to manufacturers involves such marketing services as assembling, preparing, transporting, storing, and merchandising. Marketers involved in these operations include brokers, commission agents, dealers, and topmakers. Marketing practices vary considerably from one area to another. In the 11 western States, where the volumes of shorn wool per farm or ranch run large, much of the wool is sold at the ranch by the producer to agents of central market dealers. In Texas a large part of the wool is shipped to warehouses, where it is assembled for sale. In fleece-wool States (the States other than Texas and the 11 western States), where clips usually are small, most of the wool is sold to country dealers who assemble it for sale to larger merchants or for storage.

Producers of domestic pulled wool sort their products into lots of uniform quality and put it in bags which range in weight, when filled, from 140 to 800 pounds. Much of it is sold directly to mills. Most of the imported apparel wools go to central markets, where they are handled by the same merchants and manufacturers who handle domestic wool. Imported carpet wools also go directly to central markets, where they are handled by merchants and manufacturers, most of whom are located in Philadelphia.

Charges for taking domestic wool from farms and ranches and delivering it to mills vary with the assembling, handling, preparation, and other services involved, and with the distance shipped. In 1956 and 1957 charges for country services of accumulating and assembling small lots of less than 2,000 pounds, grease basis, apparently averaged about 1.5 cents a pound. Handling charges averaged about 4.75 cents a pound for lots of less than 2,000 pounds, 3.5 cents for lots of 2,000 to 5,000 pounds, and 2.25 cents for lots in excess of 5,000 pounds. Charges for grading averaged about 2.25 cents a pound for lots of less than 2,000 pounds and 1.5 cents for lots of 2,000 pounds or larger. Charges for freight and trucking averaged about 4 cents a pound for original-bag wool, or about two-thirds more than 10 years earlier.

The apparel wool manufacturing industry consists of two major divisions, the worsted and the woolen. The worsted division accounted for 50 percent of the virgin wool consumed in the United States in 1958 compared with about 66 percent in 1948. Wool used in worsteds is sorted, blended, scoured, combed, made into top, 3/ and spun into yarn. That used in woolens is not made into top but after scouring it is carded and spun into yarn.

3/ A top is a loose, rope-like strand of wool made up largely of the longer fibers obtained from the combing process.

Most of the woolen and worsted yarns are woven into fabrics, but a good deal goes into the knit goods industry. In 1954, for example, about 84 percent of the yarns produced by woolen and worsted manufacturers were weaving yarns and about 16 percent were knit yarns, according to census reports (fig. 4). About 88 percent of the weaving yarn was used in making apparel fabrics, about 7 percent was used in blankets, and 5 percent in other nonapparel fabrics.

Most of the worsted and woolen yarns and fabrics are dyed and finished by manufacturers. Scoured wool usually is not dyed except in blends made by woolen manufacturers. The more common method of coloring worsted is by dyeing the top, though large quantities of worsted goods are dyed by applying dye to the woven fabrics. In finishing, the fabric in a moistened condition is subjected to heat, friction, and pressure in order to shrink, thicken, and interlock the fibers. The fabrics are then napped and sheared. Gross margins of woolen and worsted manufacturers, as proportions of the wholesale value of the products, increased from about 41 percent in 1939 to 47 percent in 1947, then decreased to about 40 percent in 1954, according to census reports.

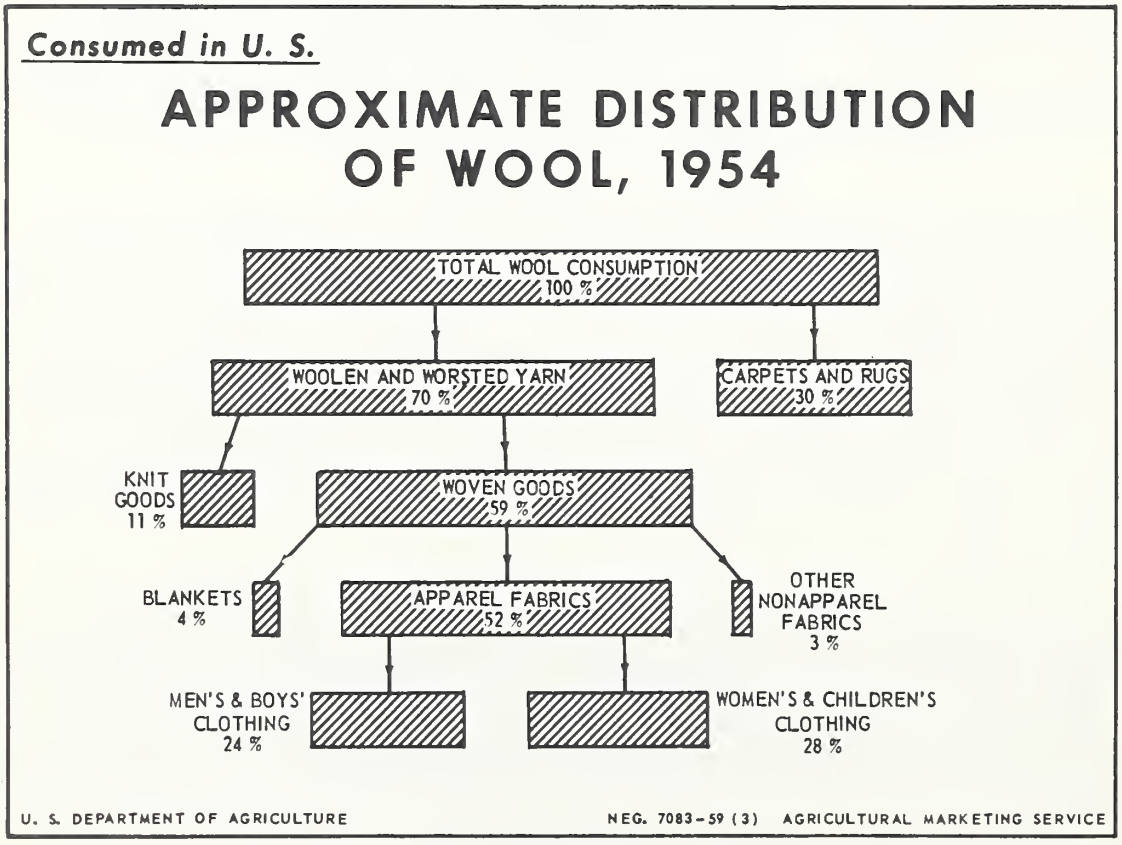
Consumed in U. S.
APPROXIMATE DISTRIBUTION OF WOOL, 1954
TOTAL WOOL CONSUMPTION 100 %
WOOLEN AND WORSTED YARN 70 %
CARPETS AND RUGS 30 %
KNIT GOODS 11 %
WOVEN GOODS 59 %
BLANKETS 4 %
APPAREL FABRICS 52 %
OTHER NONAPPAREL FABRICS 3 %
MEN'S & BOYS' CLOTHING 24 %
WOMEN'S & CHILDREN'S CLOTHING 28 %
U. S. DEPARTMENT OF AGRICULTURE
NEG. 7083-59 (3) AGRICULTURAL MARKETING SERVICE

Figure 4

Apparel fabrics are used chiefly for men's and women's outerwear. Census reports for 1954, for example, show that about 46 percent of these fabrics was used in the manufacture of men's and boys' clothing and about 54 percent in women's and children's clothing. Gross margins for manufacturers of apparel and other fabricated products increased from about 50 percent of the wholesale value of the products in 1939 to 55 percent in 1954.

Division of the Consumer's Dollar

The value added to wool by processing, manufacturing, and the other marketing services rendered is so great that returns to growers for the raw wool amount to only relatively small proportions of the prices paid by consumers for the finished products. The farm value of the raw wool used in the manufacture of 20 representative wool products during the 24 years from 1935 to 1957 averaged about 14 percent of the total retail value of these products (fig. 5). The proportions by years ranged from 10 percent in 1938, when prices per pound received by farmers for shorn wool averaged 19 cents, to 25 percent in 1951, when farm prices averaged 97 cents, and about 14 percent in 1957, when farm prices averaged 54 cents.

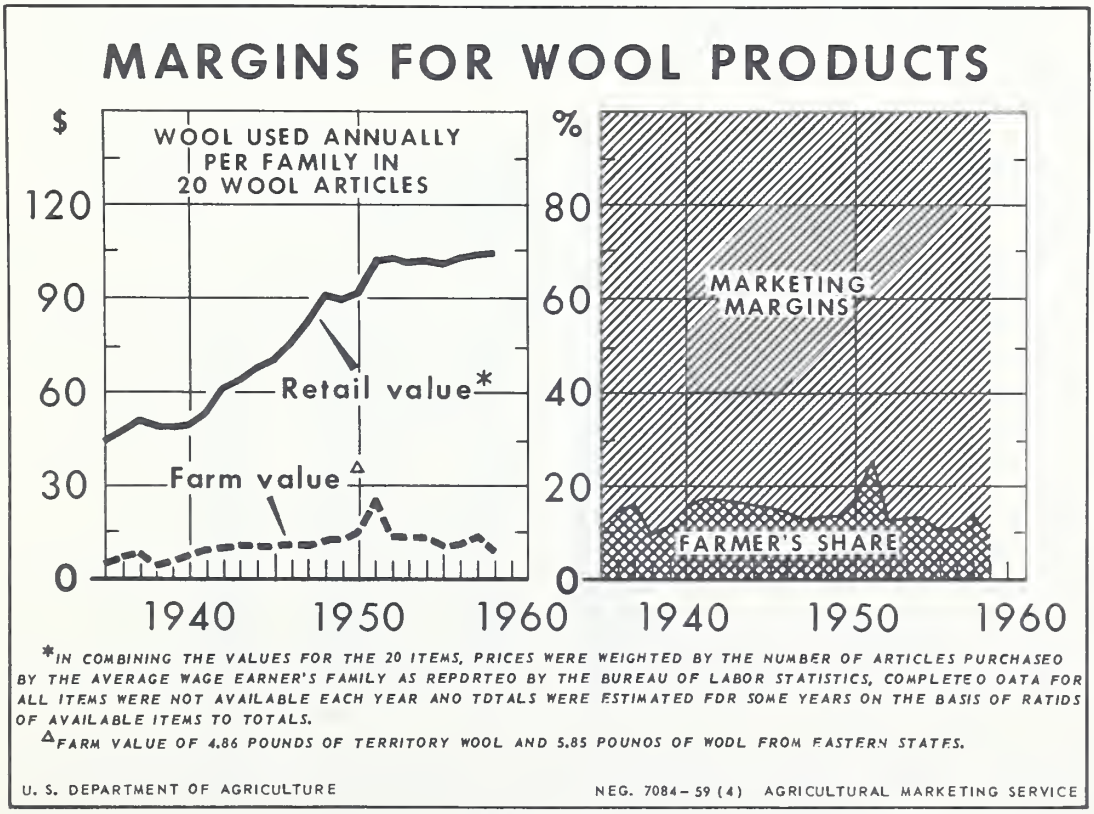
MARGINS FOR WOOL PRODUCTS
$
WOOL USED ANNUALLY PER FAMILY IN 20 WOOL ARTICLES
120
90
60
30
0
Retail value*
Farm value Δ
%
80
60
40
20
0
MARKETING MARGINS
FARMER'S SHARE
1940
1950
1960
1940
1950
1960
*IN COMBINING THE VALUES FOR THE 20 ITEMS, PRICES WERE WEIGHTED BY THE NUMBER OF ARTICLES PURCHASED BY THE AVERAGE WAGE EARNER'S FAMILY AS REPORTED BY THE BUREAU OF LABOR STATISTICS, COMPLETED DATA FOR ALL ITEMS WERE NOT AVAILABLE EACH YEAR AND TOTALS WERE ESTIMATED FOR SOME YEARS ON THE BASIS OF RATIOS OF AVAILABLE ITEMS TO TOTALS.
ΔFARM VALUE OF 4.86 POUNDS OF TERRITORY WOOL AND 5.85 POUNDS OF WOOL FROM EASTERN STATES.
U. S. DEPARTMENT OF AGRICULTURE
NEG. 7084-59 (4) AGRICULTURAL MARKETING SERVICE

Figure 5

Marketing margins for wool, or the spread between the farm value of the raw fibers and prices paid by consumers for the finished products, amounted on the average to about 86 percent of the consumer's dollar during the 24 years from 1935 to 1958. The proportions by years ranged from about 75 percent in 1951 to about 91 percent in 1958. The relative size of these margins emphasizes the importance of a breakdown to show the amounts contributed by the various items included.

Rough approximations of the average distribution of the consumer's dollar paid for clothing and household goods made of wool have been made for 1939, 1947, 1954, and 1957. These approximations are based on official data and on other information, which are not complete, and in some instances are not strictly comparable. Furthermore, the estimated margins were adjusted to approximate the farm-retail price spreads for 20 items of woolen and worsted clothing and household goods.

These approximations show that the portions of the consumer's dollar that went to growers for farm production of wool increased from an average of 11.8 percent in 1939 to 13.5 percent in 1957. Margins for marketing raw wool decreased from 2.7 percent of the consumer's dollar in 1939 to 2.5 percent in 1957. Margins for the manufacture of yarns and fabrics, including dyeing and finishing, decreased from about 16 percent in 1939 to 14 percent in 1957; those for fabricating apparel and household goods made of wool increased from about 28 percent in 1939 to 29 percent in 1957. Proportions for wholesale and retail distribution of these products averaged about 41 percent of the consumer's dollar in both 1939 and in 1957 (fig. 6).

Information relating to specific items of cost also is incomplete and in many instances the data are not comparable for the different agencies. Rough approximations, based on such data as are available, indicate that salaries and wages account for more than half of the spread between retail prices of finished clothing and household goods made of wool and returns to growers for the wool used, and that in recent years this proportion has increased (fig. 7). Combined profits of all agencies, except farm producers, increased from about 5 percent of the consumer's dollar paid for apparel and household goods made of wool in 1939 to about 15 percent in 1947, and then decreased to about 5 percent in 1957.

These data, which show the division of the consumer's dollar, indicate the relative importance from the viewpoint of costs of the different agencies and services involved. In 1957 margins for performing all the services involved in taking wool from farms and ranches and delivering it to mills, not including scouring, averaged about 6 percent of the combined cost of manufacturing wool products or about 6 percent of the costs of wholesale and retail distribution of these products. A reduction of 7 percent in margins of manufacturers or of distributors of wool products would have more influence in reducing the spread between retail prices to consumers for the finished products and prices to growers for the raw wool used than would the complete elimination of all margins for marketing raw wool.

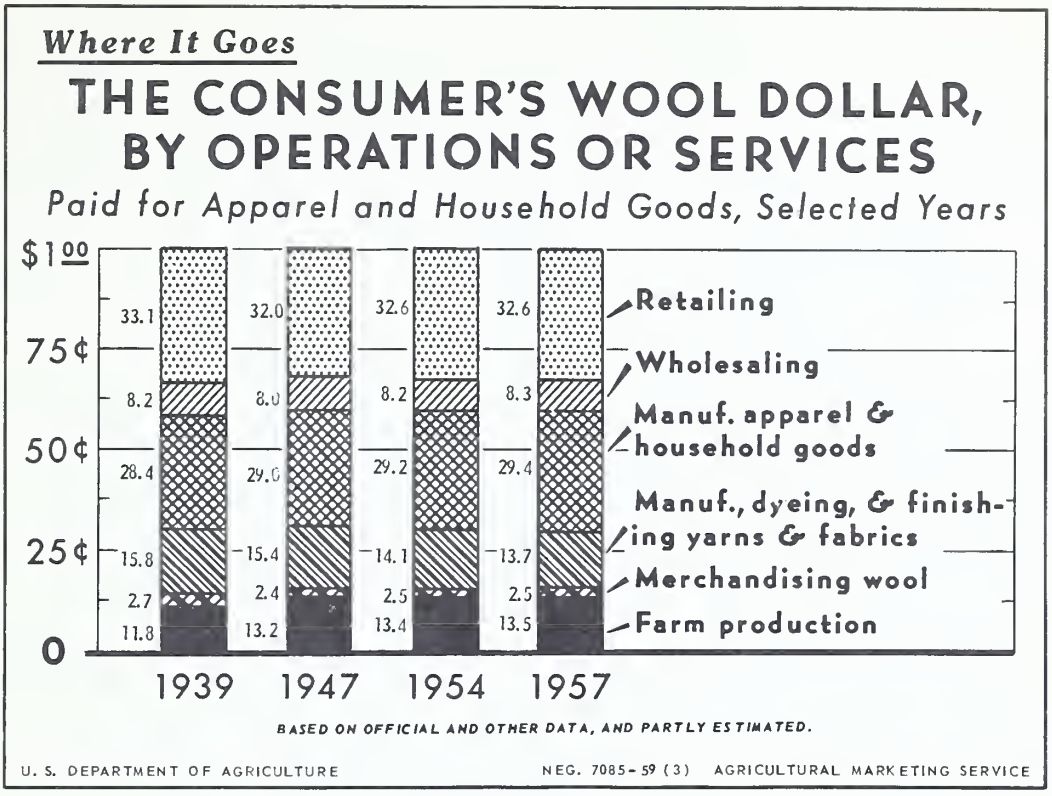

Figure 6

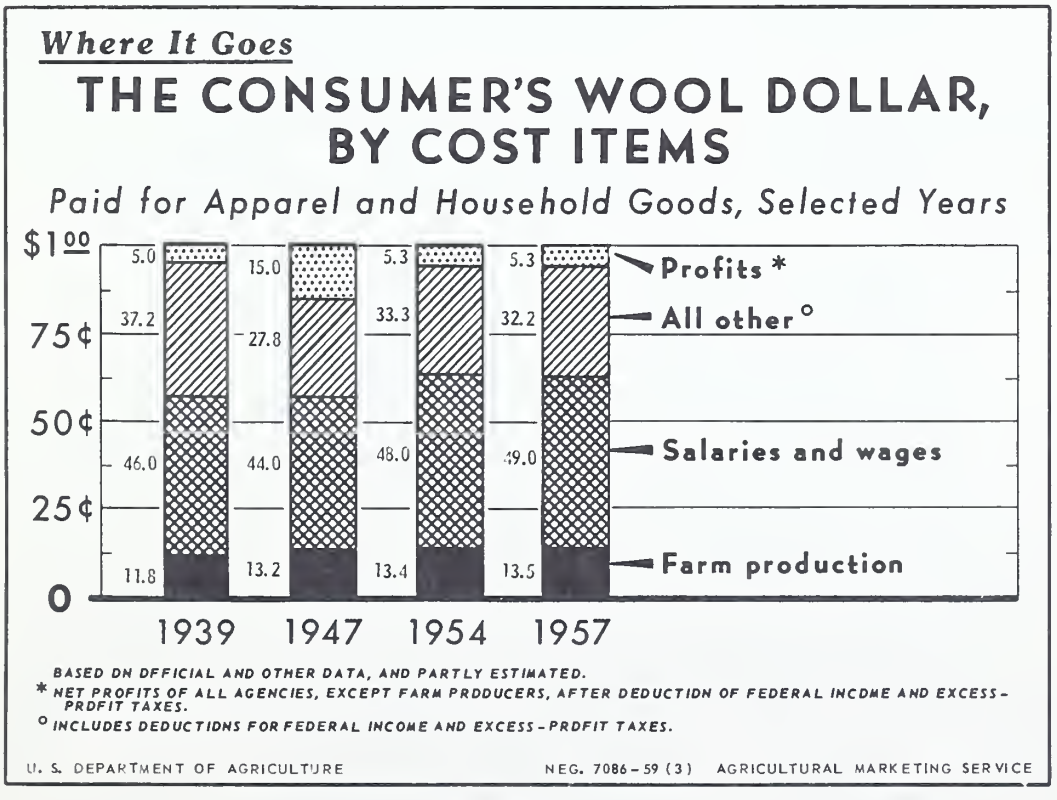

Figure 7

These differences in size of margins are important but they may not reflect accurately the relative opportunities for making reductions in marketing margins that could be passed back to farm producers of wool or on to consumers of finished wool products. As indicated earlier in the case of cotton, a determination of the extent to which it would be feasible to reduce these margins would require detailed research relating to each important segment of the marketing procedure. This research would need to be designed to evaluate the influences of the factors that affect efficiency and costs and to discover the most feasible means of improvement.